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## BIWEEKLY REPORT

# SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS

EIC-WGR-1/28

4 March 1957

PREPARED BY THE WORKING GROUP  
ON SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS

ECONOMIC INTELLIGENCE COMMITTEE

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Summary of Events  
15 - 28 February 1957

The most important Sino-Soviet Bloc activities in underdeveloped countries of the Free World during the period 15-28 February 1956 were the deliberate Soviet delays in implementing credits for economic development in Yugoslavia and the internal pro-Communist pressures on the government of Laos to accept Chinese Communist military and economic aid.

The desire of the USSR to postpone until 1960 a joint Soviet - East German credit of \$175 million to Yugoslavia for the construction of an aluminum project and Soviet intimations that other scheduled credits also would be delayed imply that the ideological controversy between the USSR and Yugoslavia has seriously disrupted their economic relations. Apparently an economic blockade will not be imposed on Yugoslavia, however, for a number of economic agreements have recently been acted upon. These include an agreement on the partial utilization of credits previously extended to Yugoslavia for the purchase of raw materials and industrial and agricultural equipment, the signing of a protocol covering trade during 1957 between the two nations, and the delivery by the USSR of the first of six IL-14 aircraft ordered by Yugoslavia. The planned purchase of a Soviet nuclear reactor by Yugoslavia has, however, met with delays. //

The government of Laos is being pressed by the Communist Pathet Lao to request over \$74 million in economic and military aid from Communist China. A significant fraction of the proposed aid would go toward the development of Pathet Lao military and political cadres. Although the proposal is being discussed by Lao government officials, the Prime Minister is reported to believe that the proposal has no chance of being accepted.

Also in the Far East the Soviet Ambassador to Indonesia is pressing for Indonesian action in regard to the \$100-million economic and technological agreement signed with the USSR in September 1956.

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In the Middle East and Africa the Czechoslovak Embassy in Cairo has announced that air service between Cairo and Prague will begin soon, and the Ethiopian government is reported to have accepted a Soviet offer to train Ethiopian hospital personnel in Addis Ababa.

In Latin America, Brazil is to receive 72,000 metric tons of standard-gauge rails valued at over \$10 million from Poland as a result of an agreement signed between a Polish firm and a Brazilian bank in November 1956.

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS\*

I. Far East.

A. Proposal for Chinese Communist Aid to Laos.

Souphanouvong, the leader of the pro-Communist Pathet Lao, has asked the government of Laos to carry out its promise to accept aid from Communist countries as a condition for Pathet Lao guarantees to participate in a coalition government. In an unpublicized agreement of 2 November between Prime Minister Souvanna Phouma and Souphanouvong which is scheduled to become part of any over-all settlement reached between the Pathet Lao and the government, Souvanna agreed to accept the principle that economic and cultural aid would be accepted from any source as long as there were no "conditions." Although Souvanna has stated that Souphanouvong did not make a specific proposal but merely said that the Chinese Communists were willing to provide factories, hospitals, and schools, several reports have been received which state that Souphanouvong asked Souvanna to request the Chinese Communists to provide US \$74.3 million\*\* for military and economic aid. According to these reports this sum would cover 1 year and would be divided as follows: \$28.6 million for support of the Royal Army, \$17.1 million for the Pathet Lao military and political cadres, and \$28.6 million for economic aid. [REDACTED]

\* Although the main emphasis of the Biweekly is on economic activities of the Sino-Soviet Bloc in underdeveloped areas of the Free World, significant Bloc activities of this nature in areas not considered underdeveloped also will be discussed.

\*\* Unless otherwise specified, all dollar values in this report are in terms of US dollars.

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If Souphanouvong has made a specific proposal for aid of this magnitude, it seems obvious that he could have done so only with the approval of the Chinese Communists, and the proposal illustrates the puppet character of the Pathet Lao. The Chinese Communists have previously offered economic aid to Laos,\* but this is the first report to mention military aid. [REDACTED]

Although an attempt is apparently being made to keep secret the proposal for substantial Chinese Communist aid, it is being fairly widely discussed in Lao government circles. There seems to be little doubt that the Crown would oppose the acceptance of Chinese Communist aid, and the reaction of the Cabinet and Assembly may increase the opposition to the proposed political settlement in the face of these additional Pathet Lao demands. Nevertheless, with the example of Cambodia's apparent success in accepting aid from both non-Communist and Communist sources, some members of the government may be tempted to support the acceptance of aid from Communist China, at least for economic purposes. Souvanna is reported to believe that the proposal for Chinese Communist aid has no chance for acceptance by either the Crown or the Cabinet. [REDACTED]

B. Soviet-Indonesian Credit Agreement.

[REDACTED] the Soviet Ambassador began pressing Prime Minister Ali and the Foreign Ministry in mid-January for action on the \$100-million Economic and Technical Aid Agreement signed in September 1956. Soviet persistence irritated Foreign Ministry officials, and in early February a note was sent to the Soviet Embassy stating that the agreement still had to be approved by Parliament. The Ministry added that approval would be facilitated by Soviet assurance that Soviet or Chinese experts sent to Indonesia would be ordered to have no political contact with Indonesians. This is the first indication that Chinese experts might be utilized under the Soviet agreement. As of 27 February the Soviet aid agreement had not been submitted to Parliament, presumably because of fear of increased Moslem opposition to Ali's tottering Cabinet. [REDACTED]

\* See the Biweekly Report of 17 September 1956.

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II. Middle East and Africa.

A. Czechoslovak-Egyptian Air Service.

A spokesman for the Czechoslovak Embassy in Cairo declared on 13 February that air service between Cairo and Prague would be opened shortly. He said that the Czechoslovak government had begun test flights and plans to use very large jet planes on this line.

[REDACTED]

Although this is the first report of Czechoslovak interest in civil aviation in Egypt, the USSR reportedly indicated such an interest in October 1956. At that time, discussions were in progress regarding an exchange of civil aviation personnel and the establishment of a nonstop commercial air service between Cairo and Moscow. The aircraft reportedly contemplated were the same high-speed jets recently employed in special 3-1/2-hour runs from Moscow to London.

[REDACTED]

B. Soviet Offer to Ethiopia.

The Ethiopian government has reportedly accepted a Soviet offer to establish a school to train personnel in connection with the Russian Hospital in Addis Ababa, which has been in existence for more than 5 years. The offer includes an addition to the hospital, for which the Ethiopians would make a contribution. Implementation of this offer would result in an increase in the Soviet staff at the hospital, which now numbers between 12 and 20. Although the Ethiopians turned down a Soviet offer in 1955 to build a second hospital in Harar, they reportedly accepted an offer in 1956 by Czechoslovakia to build a hospital in Addis Ababa.

[REDACTED]

III. Latin America (Brazilian Purchases of Polish Rail Equipment).

In November 1956 the National Economic Development Bank in Rio de Janeiro received a Polish commercial credit of \$10,384,106 for the purchase of rails and railroad equipment. The credit bears

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6-percent interest. Payment is to be made as follows: 20 percent 8 days after registration of the obligation and the remainder 6 months after delivery of each shipment. [REDACTED]

According to a report of 19 January 1957 in the Communist newspaper Imprensa Popular, the Polish firm Centrozap, under the terms of this credit agreement with the Brazilian bank, will furnish Brazil with 72,000 metric tons of standard-gauge rails. These rails are valued at more than \$10 million and are to be furnished before 1 June 1958. [REDACTED]

IV. Europe (Yugoslavia).

A. Complaint by Yugoslavia of Soviet Retreat on Economic Assistance.

Yugoslavia's Foreign Minister charged on 26 February that the USSR was seriously delaying implementation of credits for economic development promised during 1956. The major item involved was the aluminum project scheduled under the joint Soviet-East German credit of \$175 million, which the USSR desires to postpone until 1960. Moscow reportedly had also intimated that investment funds for a fertilizer plant and an electric power plant (under the \$110-million Soviet credit of January 1956) would not be immediately forthcoming. [REDACTED]

The Russians were said to have stated that other pressing economic commitments made it impossible to carry out their promises to Yugoslavia, but this claim the Yugoslavs privately derided as a "pretext." A high Yugoslav official, attached to the atomic energy mission which signed a protocol with the USSR on 9 February, remained in Moscow until 20 February in a vain effort to get the USSR to alter its stand on the aluminum project. [REDACTED]

A member of the Yugoslav Foreign Office explained [REDACTED] that the timing of the aluminum credit was still technically open -- the USSR had proposed a 5-year delay which the Yugoslavs hoped to whittle down to 2 years. This official added that,

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despite the delays in "major projects," deliveries were still being scheduled under the \$110-million investment credit and that the Soviet \$54-million credit for raw materials was being utilized as scheduled. [REDACTED]

The official Yugoslav news agency, in announcing the signing of a Soviet-Yugoslav trade protocol for 1957, also reported that agreement had been reached on Yugoslav utilization of Soviet credits during 1957. Agreement was reached on the use of \$18 million of the \$54-million credit for raw materials of 2 February 1956. Under the \$40-million portion (agreed on in a protocol of 2 August 1956) of the \$110-million investment credit, Yugoslavia would use about \$7 million to purchase industrial and agricultural equipment. [REDACTED]

Cumulative evidence indicates that the Russians are indeed stalling on their economic aid commitments to Yugoslavia, particularly for large-scale projects. Although Moscow claims economic necessity as the reason for retrenchment, the motivation is also doubtless political, since the action coincides with the bitter ideological controversy between the two countries. [REDACTED]

B. Delivery of Soviet Aircraft.

On 28 January the USSR delivered the first of six IL-14 passenger planes ordered by Yugoslavia under the \$110-million-credit agreement signed in January 1956. The remaining five propeller-driven aircraft are scheduled for delivery during the next 3 months. [REDACTED]  
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Before the IL-14's are used on scheduled runs, Yugoslav pilots will receive transition training for operating this type of aircraft from Soviet pilots. The Soviet pilots are expected to remain in Yugoslavia after the IL-14's are in regular service, however, flying on internal routes until the Yugoslav pilots are thoroughly familiar with the aircraft. Also, 10 weeks of operational training in the USSR will be given to 20 Yugoslav pilots, mechanics, and technicians who were scheduled to leave Belgrade on 15 February. [REDACTED]

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C. Delays in Purchase of Soviet Nuclear Reactor.

A Yugoslav Foreign Office source confided that the recent talks with the Russians culminating in a protocol on atomic cooperation signed on 9 February had been fruitless in respect to the planned purchase of a Soviet nuclear reactor (presumably on a short-term credit). The Russians and Yugoslavs allegedly failed to get together on a price for the reactor, and it was finally agreed that a more precise Soviet offer would be made later. [REDACTED] The Yugoslav official subsequently informed [REDACTED] that the USSR had agreed to include purchase of the reactor within the 1957 Soviet-Yugoslav commercial agreement, provided the Yugoslavs accepted the Soviet desire to postpone the aluminum credit. [REDACTED]

D. Trade Protocol with USSR for 1957.

After 6 weeks of negotiation, a trade protocol for 1957 between the USSR and Yugoslavia was signed on 26 February. Neither the planned level of trade nor the commodity lists were announced. Agreements for 1956 were for total trade of \$110 million, and it is probable that this level was attained by the end of the year. Yugoslav officials have commented both publicly and privately that the negotiations for the 1957 protocol were carried on in an "icy" atmosphere. Yugoslavia now has trade agreements for 1957 with the entire Bloc except East Germany and Czechoslovakia. A Yugoslav official disclosed that the August 1956 trade agreement between the Yugoslav and East German Chambers of Commerce has been extended until 31 March 1957. A Czechoslovak trade delegation arrived in Belgrade on 19 February to begin negotiations for a 1957 protocol. [REDACTED]

Although procrastinating on their economic aid commitments and on supplying a nuclear reactor, the USSR apparently does not choose to impose an economic blockade on Yugoslavia. To what degree the Bloc will honor its 1957 trade commitments will probably depend on the extent to which political relations with Yugoslavia deteriorate. [REDACTED]

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